Department of Telecommunications and Energy
Fourth Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **Jennifer M. Boucher**
Date Filed: **August 16, 2004**

Question DTE 4-1: Please refer to the Schedule of Exogenous Security Costs in Supplemental Schedule 3, page 2 of the Company's compliance filing. Please confirm that the Company incurred $3,162.40 in security costs in year 2001, $165,560.80 in year 2002, and $4,952.23 in year 2003

Response: The Company incurred costs of $168,723.20 in 2002 and $4,952.23 in 2003. Upon further review, the expenditure of $3,162.40 listed as 2001 was booked in the general ledger in January 2002.

Department of Telecommunications and Energy
Fourth Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 16, 2004**

Question
DTE 4-2: For each line item Supplemental Schedule 3, page 2, please provide the following:

1. the portion that was booked to operating expense

2. the portion that was capitalized

3. if capitalized, the account numbers to which these expenditures were booked, the nature of the expenditure categorized, the number of year over which the expenditure is being depreciated, and the reason for the depreciation accrual rate applied to the expenditure.

Response:

1. The only portion of Supplemental Schedule 3, page 2 that was booked to operating expense was line item 1, in the amount of $3,162.40.

2. The balance of Supplemental Schedule 3, page 2, amounting to $170,513.03 (line items 2-44), was booked to capital to account 390, Structures and Improvements.

3. Attachment DTE-4-2 provides a revised page 2 of Supplemental Schedule 3; a column entitled "Nature of Expenditure" has been added. The number of years all of the expenditures are depreciated is 50 years per the depreciation rates approved by the Department in the Company last rate order, D.T.E. 01-56.

Department of Telecommunications and Energy
Fourth Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 16, 2004**

Question DTE 4-3: Using each of the expenditures booked to operating expenses in DTE-4-2, and applying the depreciation accrual rates to each of the capitalized items identified in DTE-4-2, please calculate an annualized expense level associated with each of the total cost values for the years 2001, 2002, and 2003.

Response: Using each of the expenditures booked to operating expenses and applying the depreciation accrual rates to each of the capitalized items identified in DTE-4-2, the annualized expense level associated with each of the total cost values for the years 2001, 2002, and 2003 is as follows:

2001 = $0

2002 = $4,818 ($165,560 @ 2% depreciation rate = $3,311- ½ year convention year = $1,656 depreciation expense, plus operating expense of $3,162)

2003 = $3,361 ($165,560 @ 2% rate = $3,311 plus $4,952 @ 2% = $99- ½ year convention= $50)

As noted in the initial Compliance Filing letter, the Department established a threshold of $65,000 for the recovery of an individual exogenous "cost". Specifically, the Order in D.T.E. 01-56 stated, "…the Department finds that the "appropriate threshold level for the opportunity to recover exogenous costs in Berkshire's [PCM Rate Plan] is $65,000." D.T.E. 01-56, p. 22. In the case of the mandatory security upgrades, the Company incurred costs of $168,723.20 in 2002, well above the $65,000 threshold. The Company submits that the method and time period for depreciation of a particular asset should not determine the merits of the expenditure's qualification as an exogenous cost. Based on the assumptions in Berkshire's PCM plan, the Company should be allowed to recover the full cost of this qualifying exogenous cost.

The Company submits that, having determined that security costs constitute an eligible exogenous cost, there are two methods to provide for recovery. First, rates could be adjusted to account for not only added depreciation expense but also, as referred to in Information Request DTE-3-7, rate of return and property tax expense as well. In the context of a normal rate proceeding, it would have been appropriate for the Company to recover through rates the following costs associated with such mandated security investments:

Question
DTE 4-3
Cont'd:

Property Tax (using the average real estate tax rate from DTE 01-56):

2002 = $3,690 ($165,560 @ .0229)

2003 = $3,905 ($170,512 @ .0229)

Return on Rate Base (using the weighted cost of capital from DTE 01-56):

2002 = $15,515 ($165,560 @ 9.37%)

2003 = $15,977 ($170,512 @ 9.37%)

Alternatively, the Company's annual revenue requirement for the period commencing September 1, 2004 and ending August 31, 2005 could include the amount of the exogenous costs associated with security investment.

The exclusion of this adjustment would create a strong disincentive to making necessary investments for security. Berkshire submits such a disincentive would be contrary to the public interest in these more challenging times since September 11, 2001.